

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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SS-15 NSC-05 PA-01 PRS-01 USIA-06 L-02 H-02 /107 W

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R 071720Z MAY 75

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TO SECSTATE WASH DC 6945

AMEMBASSY ATHENS

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E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF GREECE MAY 13

REF: OECD DOCUMENT EDR(75)9

1. SUMMARY. SECRETARIAT NOTES THAT PRESENT COINCIDENCE OF WEAK TRENDS IN PRODUCTION AND REAL DEMAND, HIGH RATES OF INFLATION, AND LARGE EXTERNAL CURRENT DEFICIT WILL POSE DIFFICULT PROBLEMS FOR ECONOMIC POLICY. IT SUGGESTS THAT ADDITIONAL EXPANSIONARY MEASURES MAY BE REQUIRED TO PREVENT FURTHER DETERIORATION OF EMPLOYMENT SITUATION, BUT WARNS THAT DEMAND MANAGEMENT POLICIES MUST BE CAUTIOUS TO AVOID RISK OF EXACERBATING INFLATIONARY SPIRAL AND INCREASING CURRENT ACCOUNT DEFICIT. SECRETARIAT EXPECTS REAL GROWTH OF GDP TO BE ABOUT 1.5 - 2 IN 1975. CONSUMER PRICES MAY RISE 20, WITH WAGE COSTS LIKELY TO BE MAJOR SOURCE OF INFLATION. UNEMPLOYMENT, AND PARTICULARLY DISGUISED UNEMPLOYMENT, MAY RISE FURTHER DURING YEAR. MAIN POLICY RECOMMENDATION IS THAT GREEKS CONSIDER UTILIZATION OF SPECIAL INVESTMENT RESERVE FUND IN 1975 BUDGET IF LABOR

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MARKET CONTINUES TO WEAKEN. ON BALANCE OF PAYMENTS,

SECRETARIAT IS MORE PESSIMISTIC THAN GREEK AUTHORITIES AND CONSIDERS IT LIKELY THAT CURRENT ACCOUNT DEFICIT WILL GROW IN 1975 IN VIEW OF WEAK OUTLOOK FOR WORLD TRADE AND IMPACT OF GENERALIZED RECESSION ON INVISIBLE EARNINGS. ACTION REQUESTED: COMMENTS OR QUESTIONS FROM WASHINGTON AND ATHENS IN TIME FOR ANNUAL REVIEW MAY 13. END SUMMARY

2. GENERAL OUTLOOK FOR GREEK ECONOMY: SECRETARIAT BELIEVES THAT DOWNTURN IN DEMAND AND ECONOMIC ACTIVITY MAY HAVE BOTTOMED OUT AT BEGINNING OF 1975, BUT THERE ARE NO CLEAR SIGNS OF RECOVERY AS YET BEING UNDERWAY. ECONOMIC OUTLOOK DEPENDS TO CONSIDERABLE EXTENT ON WHETHER SPECIAL INVESTMENT RESERVE FUND IN 1975 BUDGET IS UTILIZED, WHICH SECRETARIAT CALCULATES COULD GIVE ADDITIONAL STIMULUS OF NEARLY 1 PERCENT TO GDP. WITHOUT THIS, SECRETARIAT THINKS THAT OFFICIAL GREEK FORECAST OF 2 PERCENT RISE IN GDP IS OPTIMISTIC AND IS MORE LIKELY TO BE ABOUT 1.5 PERCENT. SECRETARIAT EXPECTS LITTLE STIMULUS FROM PRIVATE CONSUMPTION IN VIEW OF SLUGGISH EMPLOYMENT PROSPECTS AND LIKELY DECLINE IN EMIGRANT REMITTANCE. INVESTMENT IN MANUFACTURING AND HOUSING IS ALSO LIKELY TO BE WEAK AS A RESULT OF SURPLUS CAPACITY, SLUGGISH CONSUMER DEMAND, AND HIGH COST OF CREDIT.

3. PRICE OUTLOOK. SECRETARIAT BELIEVES DOMESTIC WAGE COSTS WILL BE MAIN SOURCE OF INFLATIONARY PRESSURE IN 1975 WITH FARMERS AND INDUSTRIAL WORKERS SEEKING TO COMPENSATE FOR PAST LOSSES IN REAL INCOME. RECENT GOVERNMENT DECISIONS TO INCREASE INDIRECT TAXES AND RAISE MINIMUM WAGE RATES AT SAME TIME AS INTERVENTION IN PRICE AND PROFIT DETERMINATION HAS BEEN RELAXED, MAY RESULT IN INCREASE OF PRICES WELL ABOVE OFFICIAL FORECAST OF 15 PERCENT. SECRETARIAT SEES INCREASE OF 20 PERCENT BETWEEN DECEMBER, 1974, AND DECEMBER, 1975.

4. POLICY STANCE. SECRETARIAT NOTES THAT SO FAR THERE HAS NOT BEEN SIGNIFICANT UNEMPLOYMENT, ALTHOUGH DISGUISED UNEMPLOYMENT MAY HAVE BEEN INCREASING. LIMITED OFFICIAL USE

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SITUATION MAY BE AGGRAVATED BY RETURN OF EMIGRANT WORKERS FROM ABROAD. SINCE PROSPECTS FOR PRICE INCREASES AND FOR CURRENT EXTERNAL DEFICIT ARE NOT PROMISING, SECRETARIAT FEELS IT IS ESSENTIAL THAT DEMAND MANAGEMENT SHOULD REMAIN CAUTIOUS AND NOT AIM AT TOO RAPID AN UPSWING DURING 1975. SECRETARIAT DOES NOT BELIEVE THAT FURTHER MONETARY STIMULUS WOULD BE APPROPRIATE IN NEAR FUTURE. IT CONSIDERS THAT MEASURES ALREADY TAKEN TO

HELP HOUSEBUILDING ARE JUSTIFIED, BUT DOUBTS
DESIRABILITY OF FURTHER STIMULUS TO "WHAT SHOULD BE A
LOW PRIORITY AREA FOR THE ALLOCATION OF NATIONAL
RESOURCES". IF IT BECOMES APPARENT THAT RECOVERY IS
SHORT-LIVED AND LABOR MARKET IS WEAKER THAN EXPECTED,
SECRETARIAT URGES EARLY UTILIZATION OF RESERVE INVEST-

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MENT FUND PROVIDED FOR IN BUDGET AND IMPLEMENTATION OF
LABOR-INTENSIVE PUBLIC INVESTMENT PROJECTS WHERE
QUICKLY IMPLEMENTABLE.

5. SECRETARIAT VIEWS ON PRICE POLICY ARE NOT VERY
SPECIFIC AND ITS RECOMMENDATION IS LIMITED TO RESTRAINT
ON WAGE CLAIMS AND PRICE INCREASES THROUGH DEVELOPMENT
OF NATIONAL CONSENSUS IN THIS RESPECT. IT WARNS THAT
ANY ATTEMPTS BY GOVERNMENT TO SPEED UP REDISTRIBUTION
OF REAL INCOMES WOULD BE SELF-DEFEATING AND SIMPLY
REKINDLE INFLATION.

6. BALANCE OF PAYMENTS OUTLOOK. SECRETARIAT CONSIDERS THAT OFFICIAL GREEK PROJECTION OF CURRENT ACCOUNT DEFICIT APPROXIMATELY EQUAL TO THAT OF 1974 IS OPTIMISTIC GIVEN WEAK PROSPECTS FOR EXPORTS AND CURRENT INVISIBLES DURING PERIOD OF WORLD-WIDE RECESSION. IT FORESEES FURTHER DETERIORATION OF CURRENT ACCOUNT EVEN ON ASSUMPTION OF VERY MODEST GROWTH OF DOMESTIC DEMAND. FINANCING THIS DEFICIT MAY REQUIRE FURTHER LIMITED OFFICIAL USE

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RUNNING DOWN OF RESERVES AND HEAVY GOVERNMENT AND CENTRAL BANK BORROWING UNLESS INFLOWS ON PRIVATE CAPITAL ACCOUNT INCREASE. SINCE OFFICIAL RESERVES HAVE ALREADY DECLINED SIGNIFICANTLY IN RECENT MONTHS, SECRETARIAT SUGGESTS THAT CLOSE COOPERATION AMONG OECD MEMBER COUNTRIES IN ARRANGING APPROPRIATE FINANCE WILL CLEARLY BE OF GREAT IMPORTANCE IN NEAR FUTURE.

7. LONGER TERM STRUCTURAL ISSUES: SECRETARIAT NOTES THAT GREECE IS STILL FACING SIGNIFICANT LONGER TERM STRUCTURAL PROBLEMS WHICH HAVE BEEN WORSENERED BY PATTERN OF ECONOMIC DEVELOPMENT DURING LAST DECADE. IT HAS BEEN RUNNING SIZEABLE DEFICIT ON GOODS AND SERVICES WHICH HAS BEEN FINANCED BY TRANSFERS OF EMIGRANT WORKERS AND BY CAPITAL INFLOWS WHICH HAVE LARGELY NOT REPRESENTED ADDITIONS TO GREECE'S PRODUCTIVE POTENTIAL. SECRETARIAT CONSIDERS IT LIKELY THAT FOREIGN WORKERS' REMITTANCES WILL STAGNATE IN FUTURE AND THAT SERVICE OF FOREIGN LOANS WILL CONSTITUTE SIGNIFICANT BURDEN ON BALANCE OF PAYMENTS. HOWEVER, IT DOES NOT SUGGEST SOLUTIONS TO THESE PROBLEMS IN THIS YEAR'S ANNUAL SURVEY.

8. MISSION HAS SENT DOCUMENTS BY AIR POUCH TO WARREN CLARK, EUR/RPE, AND BY INTERNATIONAL EXPRESS AIRMAIL TO EMBASSY ATHENS. ACTION REQUESTED. WE WOULD APPRECIATE ANY COMMENTS OR QUESTIONS THAT WASHINGTON OR ATHENS CAN PROVIDE IN TIME FOR ANNUAL SURVEY MAY 13. WE WELCOME PARTICIPATION BY ECONOMIC COUNSELOR BENEDICK AT ANNUAL REVIEW.
TURNER

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